

TESTIMONY OF
UNDER SECRETARY ROBERT D. HORMATS

TO THE SENATE FOREIGN RELATIONS COMMITTEE
MAY 23, 2013

ON THE U.S.-EU ECONOMIC RELATIONSHIP: CRISIS AND OPPORTUNITY

Thank you Chairman Menendez, Ranking Member Corker, and other distinguished members of the committee for inviting me to testify today on the U.S.-EU economic relationship.

The strategic alignment between the United States and Europe, rooted in shared history and values, has never been closer in addressing both international threats and opportunities – and a host of internal challenges.

U.S. ties with Europe evolved significantly during the 20th century. After the Second World War, America's leaders recognized that our common future – not just Europe's future – depended on Europe's economic recovery from the war, and of course that of Japan. That the Marshall Plan combined security with a strong economic dimension is why it got such strong support in the United States.

During the Cold War, shortly after the advent of the European Economic Community, we together initiated the Kennedy Round of trade negotiations in 1964. The Kennedy round had aims that included increased U.S.-European trade. More broadly it sought to sharply reduce global tariffs, break down farm trade

restrictions, and strip away some non-tariff regulations. It also sought to boost trade with developing nations.

At the time we also saw the Kennedy Round as part of the broader goal of strengthening the transatlantic partnership – one that might ultimately lead to a transatlantic economic community. And in that respect, the Transatlantic Trade and Investment Partnership -- if it achieves its ambitious goals -- might be seen as the culmination of the spirit that animated the Kennedy Round.

Although Cold War thankfully is over, our work in strengthening U.S.-European relations is not. There is no other region with which the United States shares more broadly the same values, and no other region with whom partnership, alliance, and shared goals is achieved so readily. Among our central goals for this relationship continues to be to further enhance our mutual prosperity. Today, we draw on the same common values and same shared interests build a 21st century transatlantic economic partnership that meets the needs of Europeans and Americans in this new century and serves as a beacon for the rest of the globe

We are building on what those before us began. For us and for coming generations of Americans and Europeans, the compelling argument for strong transatlantic ties cannot be rooted in past disputes, but must be future-oriented, based on jobs and economic growth, and on shared values of democracy, respect for diversity, freedom of speech and religion and expression, and on shared opportunity.

Transatlantic Trade and Investment Partnership, (TTIP)

One of the most exciting portions of President Obama's State of the Union address was the announcement of our intention to negotiate a Transatlantic Trade and

Investment Partnership, or TTIP. This heralds a new era in the transatlantic relationship. The TTIP will be a challenge, but one worth undertaking. Already excitement is building on both sides of the Atlantic about the potential for this potentially wide-ranging agreement.

The economic relationship between the United States and Europe is already strong and integrated. The United States and the European Union together have 812 million consumers. And the United States exported \$458 billion in goods and private services in 2012 to the EU, our largest export market.

Companies in the United States and the European Union have invested a total of over \$3.6 trillion in each others' markets and approximately 50 percent of total U.S.-EU trade is intra-company. U.S.-EU trade and investment already supports an estimated 13 million jobs on both sides of the Atlantic.

A successful Transatlantic Trade and Investment Partnership could further strengthen and deepen U.S.-EU trade and investment ties. A comprehensive agreement between the United States and the European Union also would have positive effects throughout the global economy. Strengthened economic ties between the United States and the European Union, and the benefits they produce for both of our economies, will enhance our ability to build stronger relationships with emerging economies in Asia and elsewhere around the world – relationships that support high quality norms and rules in the global economic system.

With tariffs between the United States and the European Union already low, our trade negotiators will aim to address “behind-the-border” barriers to U.S.-EU trade, including unnecessary regulatory and standards differences that create burdens for

our exporters, while maintaining appropriate health, safety, and environmental protections. If we and the EU are successful in addressing these “behind-the-border” issues, we can expect to see the benefits of this cooperation spread to other markets.

Let me dwell for a moment on the reasons for this. Companies that sell in the transatlantic market want to maximize production efficiency by minimizing the number of different requirements to which they must conform. U.S.-EU regulatory cooperation will thus improve our own production efficiency – but it can also improve product quality and safety in many markets and thus in the goods we import. And it can promote a more level playing field for American companies in third markets.

U.S.-EU regulatory cooperation– and the adoption of such cooperative outcomes by other countries -- can also help integrate the United States, Europe and other established economic powers with a new group of rapidly emerging economic actors – such as China India, Brazil, Russia, and others – based on procedures and high standard rules for successful market –oriented commerce.

Energy

I’d also like to take a moment to discuss energy. The United States and the EU also have an enormous interest in each other’s energy security and promoting cooperation and research on emerging energy technologies and policies, related to such things as smart grids, critical materials, and e-mobility. They have a robust energy dialogue under the U.S.-EU Energy Council headed by the Secretaries of State and Energy. Many EU Member States have heightened their focus on

renewable energy technologies. And the EU as a whole has established ambitious energy efficiency targets.

At the same time, we've seen many American companies invest heavily in Europe, not just in the traditional hydrocarbon industry, but also in unconventional gas, renewable, and alternative energy opportunities.

U.S. and EU researchers also are collaborating on many leading-edge technologies, such as those that will enable electric vehicles to connect to the grid on both sides of the Atlantic. We are also working together to increase our knowledge of the critical materials required for certain renewable energy technologies, and identifying ways to make us less reliant upon imports of these materials and to use them more effectively.

Before concluding, I would like to make a final point. The rebalancing of U.S. foreign and economic policy to Asia has received much attention of late. But, as Vice President Biden remarked in Munich in February, our engagement with Asia is in Europe's interest and does not come at Europe's expense. Europe remains, as the Vice President noted, America's indispensable partner of first resort. Indeed it is profoundly in Europe's interest for the United States to engage more broadly with Asia. It is also worth mentioning that Europe has engaged in a broad range of new trade and investment activities in Asia as well.

There is no denying the economic importance of Asia. It is an enormous economic priority for the United States – as it is for Europe. Indeed, I believe that both Europe and the United States will be in a stronger position to meet the competitive

challenges of Asia if we have stronger economic ties with one another and if we agree on high common standards.

This larger and more systematic approach that we are undertaking now can make a big difference. Let me emphasize here that, as with past trade negotiations, the success of TTIP will depend on sustained and enthusiastic leadership from the President and his counterparts in Europe. And I believe we have and will continue to have both. It will also depend on very close cooperation with the Congress and constituencies throughout the United States. The same types of coordination must take place within Europe utilizing Europe's own institutional structures. I believe these are also well in train.

None of this will be easy. But while the challenges are great, the opportunities are even greater. This is, in many respects, a once-in-a-generation opportunity to reshape our relationship with the European Union. I believe that an agreement is achievable and that it can strengthen the relationship between the European Union and the United States – both economically and politically – for many years to come.

I thank the Committee for this opportunity to draw attention to the important issue of U.S.-EU economic relations and I look forward to answering your questions.